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Preston

MINES LIMITED

Annual Report 1967

Preston

MINES LIMITED

ANNUAL MEETING

The annual meeting of the shareholders of the Company will be held on Friday, April 5, 1968 at 11:00 a.m. (Toronto time) in the Conference Room, 26th floor, 120 Adelaide Street West, Toronto, Canada.

Annual Report 1967

Preston Mines Limited

Directors

G. R. Albino	Dr. G. B. Langford
R. D. Armstrong	R. D. Lord
W. P. Arnold	W. C. Pitfield
G. Baker	E. J. Tanner
J. I. Crookston	

Officers

R. D. Armstrong	President
W. P. Arnold	Vice-President
G. Baker	Vice-President
R. D. Lord	General Manager of Operations
J. S. Turnbull	Secretary
A. G. Goodeve	Treasurer

Mine Manager

J. Engstrom

Head Office

120 Adelaide Street West, Toronto, Canada

Bankers

The Toronto-Dominion Bank — Toronto and South Porcupine, Ontario

Solicitors

Bouck, Hetherington, Fallis, Trivett & Park — Toronto, Ontario

Auditors

Allen, Miles, Fox & Johnston, Chartered Accountants — Toronto, Ontario

Transfer Agents

Common Shares

Canada Permanent Trust Company	Toronto, Ontario
Canadian Bank of Commerce Trust Company	New York, N. Y.

Common Shares Listed

Toronto Stock Exchange	Toronto, Ontario
American Stock Exchange	New York, N. Y.

Directors' Report

Your Directors are pleased to submit this report on the operations and financial position of the Company for the year ended December 31, 1967.

Financial

The Company realized net earnings for the year 1967 of $2,092,688, representing 30¢ per share on the average number of common shares outstanding during the year, as compared with the previous year when net earnings were $1,925,087 or 29¢ per share. As in the past number of years, the Company's earnings came almost entirely from dividends received on its 43.94% share interest in Rio Algom Mines Limited. In 1967 these dividends amounted to $2,018,400, as compared with the 1966 total of $1,883,840. The increase is attributable entirely to the increase in the number of shares held by the Company by reason of its exercise of rights in the course of the Rio Algom rights issue referred to below. The additional shares were acquired prior to the payment of the second 1967 Rio Algom dividend of 20¢ per share.

The net profit from gold mining operations in 1967 was $67,622 compared to $27,286 in the previous year, and revenue from sale of equipment from the Stanleigh uranium mine property was $77,847, as compared with $86,421 in 1966.

Two dividends of 14¢ per share each were paid by the Company in 1967, the first being on June 27 and the second on December 28, amounting in total to $2,040,827.

In October, Rio Algom Mines Limited made an offering to holders of its common shares of rights to subscribe for one additional share for each seven shares held at a subscription price of $28.50 (Cdn.) or $26.50 (U.S.) per share. As the holder of 4,709,600 common shares of Rio Algom, the Company received rights to subscribe for a further 672,800 shares. These rights were exercised at a total cost of $19,174,800 and the Company now holds 5,382,400 (43.94%) of the 12,249,159 outstanding common shares of Rio Algom.

To provide for this expenditure, the Company concurrently made a rights offering to its shareholders of one share for each six shares held at a subscription price of $18.00 (Cdn.) or $16.75 (U.S.) per share. Tinto Holdings Canada Limited, a wholly owned subsidiary of The Rio Tinto-Zinc Corporation Limited, undertook, at no cost to the Company, to purchase at the subscription price all shares of Preston not taken up by shareholders through the exercise of rights.

The rights offering was extremely well received and, of the total of 1,121,333 shares offered, 1,115,283 were subscribed by shareholders, leaving only 6,050 unsubscribed shares, which were taken up by Tinto Holdings Canada Limited. The gross proceeds of the issue amounted to $20,182,985, of which $871,596, being the excess of the net proceeds over the amount required to subscribe to the additional Rio Algom shares, was added to the Company's working capital.

Operations

The gold mining operation at South Porcupine was carried on at a gradually reducing basis during the year. However, as costs were also reduced, mine operating profit was considerably better than in the previous year. Some 35 employees were released during the year and received payments under the formula previously arranged which gives consideration to their time of service. By year end, the staff and hourly rated payroll had been reduced to 143 men.

Profit performance at the operation has been better than expected. It is believed that several more months of profitable operation can be maintained, although present plans are that production shall be brought to an end by mid-summer 1968. It is anticipated that termination pay and shut-down costs of approximately $236,000 will be incurred in 1968, for which no provision has been made in the Company's accounts.

Stanleigh Property

Having regard to the increasing demand for uranium, it was considered to be in the Company's best interests to assess the potential of the Stanleigh uranium property. Accordingly, a programme of diamond drilling from surface was commenced in November to obtain more detailed knowledge of the ore potential down dip from the Stanleigh underground workings.

The initial programme consists of drilling five holes at a cost of approximately $205,000. The first two holes are now being drilled and at year end they had reached depths of 2287 feet and 2015 feet respectively. It is expected that these holes will be drilled to a depth of approximately 3800 feet. This initial programme is expected to be completed in 1968. Additional drilling will be carried out if warranted by the results of the first five holes.

Investment in Rio Algom Mines Limited

As noted above your Company's investment in Rio Algom Mines Limited was increased during the year to 5,382,400 common shares, representing an interest of 43.94% of the issued common stock of that company.

With the consent of Rio Algom and for your information, the report of the Directors of that Company to its shareholders for 1967 is reproduced in full as part of this report.

Directors and Officers

Your Directors wish to record the resignation, upon his retirement, of Mr. W. B. Malone as President and to acknowledge his valuable past services to the Company. Mr. Malone was replaced as President by Mr. R. D. Armstrong who is also President of Rio Algom Mines Limited.

On behalf of the Board

R. D. ARMSTRONG
President

Toronto, Canada
February 27, 1968

Auditors' Report

To the Shareholders of Preston Mines Limited:

We have examined the statement of financial position of Preston Mines Limited as at December 31, 1967 and the statements of earnings and retained earnings and source and disposition of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1967 and the results of its operations and source and disposition of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
February 19, 1968

ALLEN, MILES, FOX & JOHNSTON
Chartered Accountants

Preston Mines Limited

(Incorporated under the laws of Ontario)

Statement of Financial Position
December 31, 1967

	1967	*1966*
CURRENT ASSETS:		
Cash	$ 66,423	*$ 104,673*
Short term investments, at cost, and deposits	1,296,074	*250,000*
Settlements and accounts receivable	140,583	*109,929*
Estimated amount receivable under The Emergency Gold Mining Assistance Act	143,701	*160,379*
Accounts receivable from affiliated companies	1,359	*10,289*
Mine supplies, at cost	78,595	*116,153*
Prepaid expenses	45,155	*58,348*
	1,771,890	*809,771*
Less:		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	145,806	*96,671*
Accounts payable to affiliated companies	15,963	*4,815*
Unclaimed dividends	144,014	*144,014*
	305,783	*245,500*
WORKING CAPITAL	1,466,107	*564,271*
Investment in Rio Algom Mines Limited:		
5,382,400 common shares, (4,709,600 at December 31, 1966), at cost	50,828,700	*31,653,900*
Debentures, at cost	477,500	*477,500*
Property, plant and equipment, less depreciation and amortization (note 1)	1,190,119	*1,195,271*
Deferred development expenditure	26,773	*—*
EXCESS OF ASSETS OVER LIABILITIES	$53,989,199	*$33,890,942*
OWNERSHIP EVIDENCED BY:		
Capital stock (note 2) —		
Authorized:		
1,069,925 4% cumulative, redeemable, non-voting preference shares with a par value of 50 cents each		
10,000,000 common shares without par value		
Issued:		
7,849,333 common shares (6,728,000 at December 31, 1966)	$26,910,985	*$ 6,728,000*
Contributed surplus	24,993,673	*24,993,673*
Retained earnings	2,084,541	*2,169,269*
	$53,989,199	*$33,890,942*

Approved on behalf of the Board:

R. D. Armstrong, Director

W. P. Arnold, Director

Statements of Earnings and Retained Earnings

YEAR ENDED DECEMBER 31, 1967

EARNINGS

	1967	1966
REVENUE:		
Bullion production less marketing costs	$ 1,064,881	$ 1,124,311
Estimated recovery under The Emergency Gold Mining Assistance Act	290,304	306,980
	1,355,185	1,431,291
OPERATING COSTS:		
Mine operating	1,284,454	1,398,688
Depreciation (note 1)	3,109	5,317
	1,287,563	1,404,005
PROFIT from mining operations before the undernoted items	67,622	27,286
ADD OR (DEDUCT):		
Dividends received from Rio Algom Mines Limited	2,018,400	1,883,840
Investment and other income	70,898	46,778
Proceeds from sale of uranium assets	77,847	86,421
Cost of reconditioning equipment sold and idle mine expense	(42,340)	(63,201)
Administrative and general expense	(58,366)	(56,037)
Termination pay (note 4)	(26,383)	—
Exploration expenditures	(14,990)	—
NET EARNINGS FOR THE YEAR (note 3)	$ 2,092,688	$ 1,925,087
Net earnings per common share	30¢	29¢

RETAINED EARNINGS

BALANCE, beginning of year	$ 2,169,269	$ 2,128,022
NET EARNINGS for the year	2,092,688	1,925,087
	4,261,957	4,053,109
DEDUCT:		
Dividends on common shares	2,040,827	1,883,840
Expense of common share capital issue	136,589	—
	2,177,416	1,883,840
BALANCE, end of year	$ 2,084,541	$ 2,169,269

Statement of Source and Disposition of Funds

YEAR ENDED DECEMBER 31, 1967

	1967	1966
SOURCE OF FUNDS:		
Net earnings for the year	$ 2,092,688	$ 1,925,087
Add depreciation charge which did not require a cash outlay during the year	3,109	5,317
	2,095,797	1,930,404
Less proceeds from sales of uranium assets included in earnings	77,847	86,421
Total from operations	2,017,950	1,843,983
Issue of common shares (net of issue expense)	20,046,396	—
Proceeds from sale of fixed assets	79,890	89,846
	22,144,236	1,933,829
DISPOSITION OF FUNDS:		
Investment in 672,800 common shares of Rio Algom Mines Limited	19,174,800	—
Dividends on common shares	2,040,827	1,883,840
Deferred development expenditure	26,773	—
Purchase of Rio Algom Mines Limited debentures	—	477,500
Additions to fixed assets	—	2,310
	21,242,400	2,363,650
INCREASE (DECREASE) in working capital	$ 901,836	$ (429,821)

Notes to Financial Statements

DECEMBER 31, 1967

1. PROPERTY, PLANT AND EQUIPMENT

This consists of:

	1967	1966
Buildings, machinery and equipment, at cost	$23,046,879	*$23,418,827*
Less accumulated depreciation . .	23,039,625	*23,406,421*
	7,254	*12,406*
Mining properties, at cost	1,752,654	*1,752,654*
Less accumulated amortization . .	569,789	*569,789*
	1,182,865	*1,182,865*
	$ 1,190,119	*$ 1,195,271*

With respect to the company's fixed assets used in the production of gold, the cost of plant and equipment is being depreciated on the reducing balance basis at the maximum rates allowable for income tax purposes. No amount for depletion has been provided in the company's accounts for ore mined from the gold property.

Fixed assets used in the production of uranium were fully amortized by December 31, 1963 at which time deliveries under contract had been completed.

2. CAPITAL STOCK

During the year 1,121,333 common shares were issued for $20,182,985 cash under the terms of a rights offering.

3. INCOME AND MINING TAXES

Because of the exemptions and deductions permitted for tax purposes, it is estimated that the company has no liability for income or mining taxes for the year.

4. TERMINATION PAY AND SHUTDOWN COSTS

In 1966 the company adopted a termination pay plan for the benefit of any employees whose employment may be terminated by reason of the shutdown of the company's gold mine. It is estimated that termination pay and shutdown costs of approximately $95,000 and $141,000 respectively will be incurred on cessation of gold mining operations in 1968, for which no provision has been made in the company's accounts.

5. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

During the year ended December 31, 1967 the aggregate direct remuneration paid or payable by the company to the directors and senior officers of the company was $56,104.

6. COMPARATIVE FIGURES

The 1966 figures shown in the financial statements differ in certain respects from those previously reported by reason of the reclassification for comparative purposes of certain items contained therein.

Report on Operations

Results and comments on 1967 operations at the Company's gold mine at South Porcupine, Ontario are set out below:

Production

	1967	1966
Dry tons milled	147,000	155,000
Average per milling day	556	587
Fine ozs. of gold produced (est.)	28,250	29,880
Fine ozs. of silver produced (est.)	3,723	3,949
Average mill heads in ozs. per ton	0.201	0.201
Average net recovery in ozs. per ton	0.192	0.193
Average gold in tailings in ozs. per ton	0.0088	0.0083
Average recovery	95.6%	95.9%

A total of 147,000 tons was milled with a net recovery of 0.192 ounces per ton. The actual tonnage milled was consistent with the operating plan but the grade was slightly higher than had been predicted. Mill recovery of 95.6% was slightly lower than in 1966. Operating costs per ton milled, before providing for depreciation, administration costs, taxes, and bullion marketing expense were as follows:

	1967	1966
Development and diamond drilling	$1.24	$1.24
Mining	5.98	6.35
Milling	1.52	1.43
Total cost per ton milled	$8.74	$9.02

Development

The development programme was comparable to that of the previous year; it resulted in establishing access to a zone of narrow quartz veins.

The comparative figures are:

	1967	1966
Advance (feet)	5,313	5,314
Ore developed (feet)	1,310	1,125
New ore width (feet)	5.8	4.7
Cut grade (ozs. per ton)	0.26	0.25

Of the ore developed, about three-quarters was in the vein system referred to above.

General

The past year has been one of gradual curtailment both in tonnage and number of employees, and withdrawal from the deeper sections of the mine. The progressive deterioration in the economics of gold mining has necessitated dropping marginal grade material from reserves and discontinuing underground exploration.

For the past year, Mr. J. Engstrom has been Mine Manager at South Porcupine and, together with his staff, is to be commended for excellent results in effecting curtailment with economy and good personnel relations. I wish to acknowledge also the loyal and excellent service of Preston employees, many of whom have long service with the Company.

R. D. LORD
General Manager of Operations.

Rio Algom Mines Limited

Directors' Report

(see note on page 4)

Your directors are pleased to submit this report on the operations and financial position of the Company for the year ended December 31, 1967.

Financial

The Company's consolidated net earnings for 1967 amounted to $11,259,000 as compared with $9,352,000 for the previous year. The net earnings for 1966 are after allowing for a non-recurring charge against income of $1,075,000 representing start-up costs of the Tracy plant incurred prior to December 31, 1964. Net earnings per share on the average number of common shares outstanding during 1967 were 94¢ as compared with 82¢ per share in 1966, in both cases after providing for dividends on preference shares issued in April, 1966.

Comparative net earnings from operations before deduction of the non-recurring charge in 1966 referred to above, increased by $832,000. This improvement is in large measure the result of an increase of $1,111,000 in steel division operating profits. Mining division profit declined by $182,000. Net interest costs, corporate expenses and taxes, as a group, increased by $97,000.

The Company successfully completed a rights issue in October, 1967. Shareholders were given the right to subscribe for one additional common share for each seven shares then held at a subscription price of $28.50 (Cdn.) or of $26.50 (U.S.) per share. The total number of additional shares issued was 1,531,116; the proceeds of $43,674,000 were added to the Company's working capital and the total expenses of issue including underwriting commission, of $1,463,000 were charged to retained earnings.

During 1967 preference and common dividends of $5,463,000 were paid, comprising preference dividends of $870,000 and dividends on common shares of $4,593,000. Dividends on common shares were paid at the same rate of 40¢ per share as in 1966, although the total amounts paid out in 1967 on both classes of stock were somewhat higher than in 1966. The reasons are that a full year's preference dividend payment of $5.80 per share was required in 1967 and the common dividend paid in December, 1967 applied to the increased number of such shares outstanding as the result of the rights issue.

Bank loans were reduced during the year from $17,318,000 to $14,382,000. Of the reduction, $1,950,000 relates to term loans for Anglo-Rouyn and Poirier.

The Company's working capital increased by $29,572,000 during 1967, due primarily to the proceeds from the common share rights issue, and totalled $75,741,000 at the end of the year. The net excess of assets over liabilities increased by $47,443,000 to a total of $150,879,000.

Under the terms of its uranium sales contract with Eldorado Mining and Refining Limited, net advance payments of $16,200,000 became due in 1967 and were applied against uranium deliveries made in 1967. Advance payments of $13,263,000 remain to be repaid, of which a net amount of $11,138,000 will be paid by application against deliveries to be made in 1968.

Uranium

At Elliot Lake, the rehabilitation of the old Quirke mine, the preparation of the new Quirke mine for operation and the rehabilitation of the Quirke mill are proceeding on schedule. The transfer of operations from Nordic to Quirke is thus expected to take place in mid-1968 without interruption. The Company is also developing plans which will place it in a position to re-open certain of its idle mines in the most efficient and economic manner when market requirements warrant.

As previously announced, a letter of intent was received in September, 1967 from a group of eight Japanese utilities for the purchase of 10 million pounds of uranium oxide (U_3O_8) concentrate to be delivered in equal annual quantities over the period 1969-1978. The formal contracts were signed in January, 1968. These new contracts, together with agreements negotiated in 1966 and those carried forward from prior years, increased the Company's total future delivery position to more than 50 million pounds of U_3O_8. This provides assurance of uninterrupted continuity of uranium production for many years.

In accordance with the terms of the master Eldorado contract, deliveries of the lower priced parcels will commence in the second half of 1968 and will be completed in 1971. An amount of one million pounds will be delivered to the Japanese utilities beginning in 1969; small initial deliveries will be made under the Ontario Hydro contract in 1970 and will gradually increase thereafter. Deliveries under the 1966 contract with the United Kingdom Atomic Energy Authority will begin in 1973, or, at the Company's option, in 1972, at an annual rate of 2.0 million pounds per year.

The resurgence in uranium demand is now firmly established. The rate of new orders for nuclear reactors around the world accelerated in 1967 and it appears from current plans of the electrical utilities industry that this demand will continue. The Company has had discussions with potential customers overseas and in the United States although the current policy of the U.S. Atomic Energy Commission prohibits the enrichment of imported uranium in the United States for domestic (U.S.) consumption. In view of the rapidly expanding requirements in the United States, it has become difficult to understand the AEC policy in this regard. In discussions with United States utilities, Rio Algom has stated that under these circumstances the established uranium producers with large ore reserves in Canada may well have committed their production before the American embargo is lifted to such an extent that American consumers will

not be able to obtain a desired portion of their large requirements from Canadian sources.

Exploration

The 1967 programme centred on the search for uranium and base metals in the United States and Canada. Several long term programmes were initiated in 1967 and it is expected that the level of exploration activity and of expenses in 1968 will be about the same as in 1967.

The Company's uranium exploration programme in the United States has resulted in the discovery of a promising uranium prospect in the Big Indian area in San Juan County, Utah. While the property is small compared with the Elliot Lake uranium mines, it is high grade. A decision will be taken within the next several months as to the development of this prospect. Production from a U.S. mine would not be subject to embargo restrictions and could be enriched in the United States for U.S. customers.

The Company owns 36.4% of the shares of Lornex Mining Corporation Ltd. The Lornex property is located in the Highland Valley area of British Columbia and contains a large low grade copper deposit together with minor molybdenum values. The second stage exploration programme started in 1967 to determine whether the deposit is commercially mineable is expected to be completed in 1968.

The Company's exploration expenditures, exclusive of exploratory development work at Lornex and Utah, were $1,026,000, compared with $627,000 in 1966.

Steel

The significant increase in the steel division earnings is attributable in large measure to improved operating results of the Tracy plant. Provided that general economic conditions are favourable, further improvement is expected for the division in 1968.

The construction programme at the Tracy plant is now virtually complete, with the exception of the installation of a vacuum degassing unit which will be completed during 1968.

Steel technology has experienced major and rapid changes and the requirement for higher quality products to meet increasingly stringent specifications has become an accepted part of the specialty steel industry. Because of the need to maintain totally competitive technological capability and of the economic benefits which can be derived by upgrading the Company's product line, increased capital expenditures for new equipment and processes are planned for the Welland plant over the next several years.

Other Interests

The Company continued to provide supervisory management and other services to British Newfoundland Corporation Limited (Brinco) and Churchill Falls (Labrador)

Corporation Limited during 1967. In accordance with the terms of the agreement, signed in February 1967, payment of the management fee, which will be retroactive to November 1, 1966, will resume at such time as Churchill Falls receives proceeds of long term debt financing relative to the power project in Labrador. Churchill Falls did not undertake such financing in 1967. Pursuant to its agreement the Company was reimbursed for its out of pocket expenses incurred in providing the stipulated services.

During the year, Churchill Falls reorganized its capital structure by subdividing each common share into two common shares. It also converted to shares certain loans from shareholders and issued to existing shareholders on a pro rata basis a further 2,500,000 common shares at $15.00 per share. The Company subscribed for the 262,200 shares to which it was entitled. These shares were paid up to the extent of 10%; the balance of 90% of the total subscription price of these shares, amounting to $3,539,700, was advanced to Churchill Falls in the form of an interest-bearing loan.

As a result of these transactions, the Company now owns 632,446 common shares of Churchill Falls, representing an interest of approximately 10.4%. Brinco owns approximately 63.3% of the shares of Churchill Falls and the Company owns 6.1% of Brinco.

Work on the development of the 5,225,000 kilowatt hydro electric generating plant on the upper Churchill River in Labrador is progressing satisfactorily in accordance with a schedule designed to enable initial deliveries of power to be made in 1972.

Earnings Trend

The impact of lower average selling prices of certain uranium poundage which will be produced for delivery under the Master Eldorado contract commencing in 1968 will be offset in part by the commencement of deliveries of uranium to the Japanese utilities in late 1969, and to a lesser extent by the commencement of deliveries to Ontario Hydro.

Average copper prices in 1967 were lower than in 1966, although current prices are higher than at the beginning of last year. It is difficult to predict copper prices for 1968 and subsequent years because they are subject to a wide variety of diverse and unpredictable factors.

Major improvements have been achieved in steel division operations as evidenced by the improvement of slightly over 40% in steel division operating results in 1967. It is expected that these earnings will continue to improve at a satisfactory rate if economic conditions are favourable.

On balance, the combination of these factors is expected to lessen but not completely offset the short term impact on mining division earnings of the lower priced uranium parcels to be produced for delivery to Eldorado in the second half of 1968.

The long term outlook for uranium operations continues to be promising. The Company has developed a satisfactory forward commitment base; it has substantial uncommitted reserves and long term production capacity and it has a reasonable amount of short term capacity available for sale if market conditions present opportunities consistent with the Company's marketing policies.

Carter Report

At the last annual meeting reference was made to what are considered to be the principal fallacies in the Carter Commission report and to the detrimental impact on the natural resources industry and the nation's economic position if the report were adopted. Since that time the balance of responsible statements has been overwhelmingly against the recommendations contained in the report. As Canadians, we should be most concerned about any action that would seriously reduce the incentive for investing in natural resource industries, which have always been a cornerstone of the country's economy. It has been made abundantly clear during the past year that the adoption of the Carter recommendations relating to the mining industry would result in a serious curtailment of exploration and development.

Organization

Reference was made in the Chairman's letter last year to the retirement of Mr. W. B. Malone as First Vice-President on March 31, 1967. Mr. Malone made a most valuable contribution to the Company's progress as an officer and a director throughout the long period of his association with Rio Algom and its predecessor companies. Mr. Malone does not plan to stand for re-election as a Director of the Company.

It is intended that the vacancy on the Board of Directors created by Mr. Malone's retirement will be filled by Mr. George R. Albino, who is Vice-President and Executive Assistant to the President.

The Company owns or controls natural resources and specialty steel manufacturing and distribution facilities of major current and potential value. It has organized itself to develop and utilize these resources and facilities by orderly, responsible and profitable means. As a result of this activity it now has an organization comprising some 5,000 people possessing a wide variety of skills. This combination of assets and people has been effective and successful and your directors particularly wish to express their appreciation to all the members of the Company's organization for their effective efforts during the past year.

On behalf of the Board,
R. D. ARMSTRONG
President.

Toronto,
February 23, 1968.

Rio Algom

Rio Tinto

Printed in Canada.

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PRESTON MINES LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

for the six months ended June 30, 1967
($000's omitted)

	1967	*1966*
Source of funds:		
Operations—		
Net earnings for the period	$ 980	$ 973
Add depreciation charge which did not require a cash outlay during the period	2	3
	982	976
Proceeds from sales of surplus gold mining equipment	1	—
	983	976
Application of funds:		
Dividends paid on common shares	942	942
Purchase of Rio Algom Mines Limited debentures	—	478
	942	1,420
Increase (decrease) in working capital	$ 41	$(444)

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Preston Mines Limited

Interim Report to the shareholders

for the six months ended June 30, 1967

TO THE SHAREHOLDERS:

The gold mining operation resulted in a profit of $23,000 for the six months compared with $16,000 for the same period in 1966. During the first half of 1967, 82,180 tons of gold bearing ore were milled, producing 15,852 ounces of gold. Revenue from gold production of $761,000 includes $163,000 estimated to be recoverable under the Emergency Gold Mining Assistance Act.

Investment income of $975,000 includes $942,000 dividend income received in June from Rio Algom Mines Limited. A dividend of 14 cents per share, equivalent to this dividend income, was declared by your directors on May 8, 1967 and paid on June 27, 1967.

Toronto, Canada — R. D. ARMSTRONG
August 29, 1967 — *President*

Subject to year-end audit and adjustments.

PRESTON MINES LIMITED
STATEMENT OF EARNINGS

for the six months ended June 30, 1967
($000's omitted)

	1967	*1966*
Revenue from gold production less marketing costs	$ 761	$ 758
Mine operating costs including depreciation	738	742
Profit from mining operation	23	16
Proceeds from sale of uranium assets	62	53
Investment and other income	975	964
	1,060	1,033
Deduct:		
Cost of reconditioning equipment sold and idle mine expense	29	37
Termination pay	7	—
Exploratory drilling	15	—
Administrative expense	29	23
	80	60
Net earnings for the period	$ 980	$ 973